

ILLINOIS COMMERCE COMMISSION

DOCKET No. 13-~~—————~~0192

REVISED DIRECT TESTIMONY

OF

SCOTT D. VERBEST

Submitted on Behalf

Of

**AMEREN ILLINOIS COMPANY
d/b/a Ameren Illinois**

JanuaryJune 5, 2013

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Ameren Illinois

I. INTRODUCTION

A. Witness Identification

Q. Please state your name and business address.

A. My name is Scott D. Verbest. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. By whom are you employed and in what capacity?

A. I am employed by Ameren Services Company (Ameren Services) as Executive Compensation Lead.

Q. Please summarize your educational background and relevant professional experience.

A. See my Statement of Qualifications, attached as an Appendix to this testimony.

Q. What are your duties and responsibilities in your present position?

A. As Executive Compensation Lead, I am responsible for managing Ameren Corporation's (Ameren), including Ameren's subsidiaries', executive compensation programs and processes. This entails administering the annual pay and performance process for Ameren's executives

(merit and short- and long-term incentive plans), preparing and coordinating all materials for the meetings of the Human Resources Committee of the Ameren Board of Directors, preparing executive rewards communications, assisting in the preparation of the annual proxy statement for Ameren and its subsidiaries' information statements, and leading regulatory activities including data requests, testimony preparation, witness preparation, research and analysis, etc., related to the recovery of incentive compensation expenses in the regulated utility subsidiaries' rate proceedings.

B. Purpose, Scope and Identification of Exhibits

Q. What is the purpose of your direct testimony in this proceeding?

A. The purpose of my testimony is to explain and support Ameren Illinois Company d/b/a Ameren Illinois' (AIC) forecasted level of test year incentive compensation expense, as well as explain its incentive compensation plan in the test year. I explain why AIC's plan is integral to its reward for performance pay practices and why the key performance indicators (KPIs) in the plan provide tangible ratepayer benefits. I also explain how the Ameren Services' KPIs for 2014 benefit customers.

Q. Are you sponsoring any exhibits with this testimony?

A. Yes. I am sponsoring Ameren Exhibit 11.1, which contains the plan documents for the AIC Incentive Compensation Program for 2013 (the latest year for which the plan documents are available) and which is designated **Confidential and Proprietary (C&P)**. I also am sponsoring Ameren Exhibits 11.2 and 11.3, which respectively show the AIC and Ameren Services' KPIs, their gas operations allocable costs and the associated ratepayer benefits for 2014.

Q. Please summarize the conclusions of your direct testimony.

A. The incentive compensation costs for which AIC seeks recovery are prudent and reasonable expenditures that provide tangible benefits to customers. For the 2014 test year, AIC projects to incur a total amount of incentive compensation expense allocable to gas operations of \$~~4,163,613~~5,333,180 million, as well as \$~~1,396,122~~1,588,245 -million for Ameren Services incentive compensation costs allocable to AIC's gas operations. Of this amount, AIC is not seeking recovery of \$515,077 in expenses related to certain KPIs where payments are based on attainment of earnings per share goals. The remaining AIC and Ameren Services KPIs for which AIC is seeking recovery are KPIs which provide ratepayer benefits in the areas of safety, reliability, customer satisfaction and operational excellence. AIC is seeking recovery of \$~~3,958,693~~5,128,261 million related to those AIC KPIs and \$~~1,085,965~~1,278,106 million related to those Ameren Services KPIs. In total, AIC requests recovery from ratepayers of \$~~5,044,658~~6,406,367 million of the projected test year level of incentive compensation expense.

Q. Has the Illinois Commerce Commission previously authorized recovery of incentive compensation expense for AIC?

A. Yes. In its Final Orders in Dockets 09-0306 – 0311 (cons.) and 11-0282, the Illinois Commerce Commission (Commission) authorized recovery of incentive compensation expense related to gas (and electric) operational goals concerning safety, reliability, customer satisfaction and operational excellence. The Commission also recently authorized recovery of incentive compensation expense related to similar operational goals in Docket 12-0001, an electric rate proceeding filed under Section 16-108.5 of the Illinois Public Utilities Act (Act), 220 ILCS 5/16-

108.5. The metrics for which recovery was approved in these dockets are similar to the operational metrics I discuss below.

Q. Please summarize any significant alterations to the AIC and Ameren Services KPIs.

A. As I also discuss below, the AIC KPIs in 2014 are substantially similar to the 2009 KPIs and the 2012 KPIs approved by the Commission in Docket 11-0282. For the 2014 Ameren Services KPIs, some changes were made from the KPIs approved by the Commission in Docket 11-0282. Most of the changes reflect either new KPIs related to strategic initiatives or elimination or consolidation of KPIs to streamline and simplify the Ameren Services KPIs.

II. THE ROLE OF INCENTIVE COMPENSATION

Q. What role does the incentive compensation program play in the overall compensation package offered to AIC employees?

A. AIC views incentive compensation as a common and necessary component of the total compensation package for employees in the electric and gas utility industry. Using incentive pay is a prevailing compensation practice, and AIC's incentive plan is designed so that the base salary plus the "target" incentive compensation opportunity bring employees near the median total cash compensation levels for comparable utility positions. Therefore, a portion of all employees' compensation is contingent on performance.

Q. Please explain why incentive compensation is an important element of AIC's total compensation package.

A. It is critical for AIC to offer a total compensation package that will allow it to both attract and retain entry-level and experienced employees. Today, incentive compensation is an

85 expected component of the total compensation package in the market. If AIC does not offer
86 incentive compensation, it will be difficult to attract and retain employees who are likely to be
87 offered a more complete total compensation package elsewhere. AIC could simply provide total
88 compensation in the form of higher base salary or wages. However, a pure salary approach
89 lessens the connection between pay and performance. Specifically, base salaries are paid
90 whether performance objectives are met or not, and sole reliance on base salary would
91 significantly limit AIC's ability to motivate and reward its employees for superior performance.
92 Ultimately, a competent, stable, focused and motivated workforce is critical to providing
93 excellent service to AIC's customers. AIC strives to maintain a total rewards package that will
94 attract, retain and motivate such a workforce. AIC thus provides a total rewards package that
95 includes both base pay and incentive pay programs in order to attract talent and remain
96 competitive with other employers.

97 **Q. From a Human Resources perspective, do you consider incentive compensation in**
98 **isolation from total compensation?**

99 A. No. Although it is my understanding that in Illinois utility rate proceedings, incentive
100 compensation expense is reviewed separately from wage expense, as Executive Compensation
101 Lead, when reviewing compensation levels, I consider total compensation, including base and
102 incentives together.

103 **Q. What factors are used to determine whether AIC's total compensation package is**
104 **reasonable?**

105 A. The Human Resources department uses reputable, reliable, third-party market data to
106 determine competitive market-based pay and incentive (short- and long-term) compensation

levels for each position, thus ensuring that AIC's total compensation costs are prudent and reasonable. Each year, AIC participates in numerous (a dozen or more) salary surveys with reputable third-party consulting firms such as Mercer HR Consulting, Towers Watson, and AonHewitt, etc. AIC along with many peer companies submit data regarding the compensation package (base, incentives, total compensation, etc.) of incumbents in specific positions defined by each survey. The consulting firms analyze the data and develop detailed reports that help companies understand the market-based compensation elements for each of the reported positions. As a result of this review and analysis, AIC (and Ameren Services) is able to confirm that total compensation amounts (salary plus incentives) are competitive within the market, and therefore are reasonable.

Q. Does AIC consider incentive plans necessary in today's economic environment?

A. Absolutely. AIC has a prudent and market-based compensation program in place, and has taken thoughtful and appropriate actions to manage labor costs given current economic conditions. It is critical that AIC maintain a long-term perspective regarding its workforce. AIC will have to continue to compete for talent now and in the future, and it must maintain an appropriate overall compensation package. Barring material changes to AIC's short-term incentive plans, it is important to have stability on this issue. Therefore, AIC believes it is reasonable and appropriate to maintain incentive compensation plans and recover incentive compensation expense.

Q. You mentioned that incentive compensation is necessary to maintain compensation levels that are consistent with the median for the utility industry. Does this mean that AIC will continue to use incentive plans?

A. Yes. The portion of AIC's overall compensation package that is tied to incentives is a part of the total package necessary to make it competitive. If AIC did not have the incentive package, its ability to compete for qualified employees would be harmed. The fact that AIC has made part of its overall compensation package payable only if certain goals are met should be endorsed. AIC has seen positive results from the use of incentive plans and will continue to use them.

III. THE 2014 INCENTIVE COMPENSATION PROGRAM

Q. Please explain AIC's 2014 Incentive Compensation Program.

A. AIC's employees participate in one of five annual incentive compensation plans:

- The Executive Incentive Plan (EIP) for officers (EIP-O), which applies to all officers within AIC;
- The EIP for directors (EIP-D), which applies to all members of the Ameren Leadership Team (ALT), with the exception of officers;
- The Ameren Management Incentive Plan (AMIP), which applies to AIC's professionals and supervisors (excluding ALT and bargaining unit employees);
- The Ameren Incentive Plan (AIP), which applies to AIC employees who are represented by a bargaining unit; and
- The Ameren Marketing, Trading & Commodities Incentive Plan (AMTC), which applies to five non-ALT AIC employees in roles directly related to power marketing, power trading or commodity markets.

All of the plans have similar elements, but are modified for specific role and market implications. All focus the target audience on goals they can most impact. All plans have been

designed based on market practices in a prudent and reasonable manner with the goal of providing rewards based on performance.

Q. Please describe the basic structure of the Executive Incentive Plan for officers and for directors.

A. The EIP-O is designed to ensure that AIC's officers are focused, as a senior leadership team, on the overall success of the business. As such, 90% of the EIP-O is funded based on financial, earnings per share (EPS) performance. The remaining 10% of the funding under the EIP-O is based on operational safety performance as measured by lost workday away (LWA) cases. The funded award (base award) may be adjusted up or down based on the officer's personal performance and achievement of key operational metrics such as reliability customer satisfaction, etc.

The EIP-D differs in that 100% of the funding is based on operational performance as measured by incentive KPIs. Incentive KPIs generally represent goals related to important operational issues such as safety, reliability, customer satisfaction and operational excellence, as I discuss below. Similar to the EIP-O, each plan participant may have his or her base award (which is determined formulaically) adjusted up or down based on demonstrated leadership and contributions to goal achievement. AIC has not requested recovery of the 90% of the EIP-O costs that are based on EPS.

Q. Please describe the Ameren Management Incentive Plan.

A. The AMIP is funded based on achievement of pre-defined incentive compensation KPIs. These KPIs focus plan participants on key operational metrics such as safety, reliability, cost control, and customer satisfaction. To ensure line of sight, the metrics may vary by function.

This helps to ensure that employees are rewarded for achieving goals that they are most able to influence or control. Similar to the EIP, awards funded based on operational performance may be adjusted up or down to reflect individual contributions to group KPIs or achievement of individual performance objectives.

Q. Please describe the Ameren Incentive Plan.

A. The AIP is funded and paid 100% based on incentive KPI performance. The incentive KPIs are designed to focus employees on important operational goals that they can influence. To ensure line of sight, the metrics and/or weightings generally vary by function. This plan applies to AIC (and Ameren Services) employees represented by a bargaining unit.

Q. Please describe the basic structure of the Ameren Marketing, Trading & Commodities Incentive Plan.

A. Five AIC non-ALT management gas supply employees are currently eligible to participate in the AMTC. This plan has the same components as the AMIP but also incentivizes employees to achieve progress on additional goals related to the commodities that they manage (such as reduction of price volatility, hedging performance, and risk management). The target incentive opportunity associated with these additional measures totals \$58,690 for all five employees.

Q. Do Ameren Services employees participate in the same plans?

A. Yes. Business & Corporate Services (B&CS) maintains its own KPIs, allocates time to AIC and has incentive compensation costs, the Illinois portions of which AIC seeks to recover. As discussed below, however, Ameren Services utilizes a broader range of KPIs than AIC. The

Ameren Services incentive compensation KPIs historically have been more diverse than the AIC KPIs because the B&CS segment funds its incentive plan both at the segment level and through numerous functional areas (Information Technology, Human Resources, Supply Services, etc.), which each have had their own KPI “scorecards.”

Q. Have there been any significant changes to the AIC incentive compensation plan since 2012?

A. Yes. The EIP-O was amended in 2013 to no longer be based 100% on EPS, but rather 90% on EPS and 10% on operational safety LWA performance as described above. Furthermore, the EIP-D, which previously was based 25% on EPS performance, is now based 100% on operational goals. Other than these changes, the incentive compensation plan that will be in effect for AIC in 2014 has not been materially changed from 2012. In particular, the KPIs established in 2009 (and discussed in Dockets 09-0306, et al.) and utilized in 2010 – 2012 are substantially similar to the KPIs planned for 2013 and 2014.

Q. Have there been any significant changes to the Ameren Services incentive compensation plan since 2012?

A. Yes. The EIP-O was amended in 2013 to no longer be based 100% on EPS, but rather 90% on EPS and 10% on operational safety LWA performance as described above. Furthermore, the EIP-D, which previously was based 25% on EPS performance, is now based 100% on operational goals. Certain other Ameren Services KPIs have been altered since 2012 (the test year in AIC's last rate case). Generally, these changes result from efforts by Ameren Services to reduce the number of KPIs, consolidate related KPIs and simplify the application of performance metrics. The altered KPIs fall into three general categories: (1) eliminated KPIs;

(2) renamed or consolidated KPIs; and (3) new KPIs. Ameren Services has developed several new KPIs to reflect its renewed focus on safety and employee engagement. Following are the altered KPIs:

- **Eliminated 2012 KPIs**

- Operational Excellence – Infrastructure Cost/FTE (ASCIT)
- Operational Excellence – Development Workgroup Initiatives (ASCIT)
- Coaching and Feedback (Treasurers)
- Workforce Preparedness (HR)
- Culture Change Initiative (HR)
- Customer Satisfaction – Timely Delivery, Distribution of Materials (Corporate Communications)

- **Renamed/Consolidated 2014 KPIs**

- Budget Compliance (B&CS) (replaced B&CS Cost per Customer)
- Customer Satisfaction – Customer Satisfaction and Employee Engagement (Corporate Communications) (replaced B&CS External Customer Satisfaction and Corporate Communications External Customer Satisfaction – 2012 Calder LaTour Survey)
- Safety – Ameren-wide LWAs or Significant Injury Index (B&CS) (replaced B&CS Safety – OSHA Recordables)
- Operational Excellence – Regulatory/Stakeholder Initiative, Operational Excellence – CPOC Compliance, NERC Cyber Security Compliance and Operational Excellence – Corporate Long-Term Debt Issuances, Credit Facilities and Other Financial Transactions (General Counsel) (consolidated into Operational Excellence – Internal Customer Satisfaction)
- Internal Compliance Controls (SOX) Material Weaknesses, Significant Deficiencies and Schedule of Unadjusted Differences Caused by Errors or Omissions of the Tax Department (Tax)
- Internal Compliance Controls (SOX) Material Weaknesses, Significant Deficiencies and Schedule of Unadjusted Differences (Controllers)
- Operational Excellence through Successful Completion of Sustainability Initiatives (Supply Services)
- Leadership Development, New Hire Experience and Talent Development (HR) (replaced HR Workforce of Tomorrow)

- **New 2014 KPIs**

- Operational Excellence – Employee Development Program (ASCIT)
- Timely and Materially Correct Filing of All Transaction Tax and Property Tax (Tax)
- Operational Excellence through Successful Completion of Corporate Safety Initiatives (Supply Services)

- Customer Satisfaction – Social Acquisition and Engagement (Corporate Communications)
- Customer Satisfaction – Improved Communication through Earned Media (Corporate Communications)

Other than these changes, the incentive compensation plan that will be in effect for Ameren Services in 2014 has not been materially changed from 2012.

IV. REQUESTED RECOVERY OF INCENTIVE COMPENSATION EXPENSE

Q. What is the test year amount of incentive compensation expense for which AIC is requesting recovery?

A. ~~\$5,044,6586,406,367.~~ -This consists of ~~\$3,958,6935,128,261~~ for AIC gas KPIs and ~~\$1,085,9651,278,106~~ for Ameren Services KPIs allocable to AIC gas operations, as discussed above. AIC has voluntarily removed amounts associated with financial goals from its request. For the 2014 AIC and Ameren Services KPIs for which AIC is requesting cost recovery, the amount of incentive compensation expense requested for each KPI is shown on Ameren Exhibits 11.2 and 11.3.

Q. Why is recovery of the requested amount of incentive compensation expense appropriate?

A. The requested recovery of incentive compensation expense is appropriate because the expense is related to KPIs that provide ratepayer benefits. The AIC KPIs provide ratepayer benefits because they are related to operational goals, the achievement of which improves service and operational efficiency. These operational goals fall into four categories: safety, reliability, customer satisfaction, and operational excellence. AIC is requesting recovery for KPIs in each of these four categories. The AIC KPIs that primarily fall in the safety category are associated

with OSHA Recordable Incidents, Preventable Motor Vehicle Incidents and Gas Leak Response. The AIC KPIs that primarily fall in the reliability category are Standard Designs Completed in 24 Hours, Percentage of locates screened and cleared, Gas Compliance, Meter tests completed, Fleet Preventative Maintenance, Gas Storage Forced Outage, and Field and Shop Compliance. The AIC KPIs primarily in the customer satisfaction category are FOCUS and CCI. The Ameren Services KPIs provide ratepayer benefits because they are also related to operational goals as set forth in Ameren Exhibit 11.3.

Q. For 2014 AIC KPIs for which AIC is requesting cost recovery, please explain how each KPI provides tangible ratepayer benefits.

A. The attached Ameren Exhibit 11.2 provides a detailed summary of the ratepayer benefits of each of the 2014 AIC KPIs. For example, the Occupational Safety and Health Administration (OSHA) Recordable Incidents KPI encourages working safely to protect our employees and customers. Avoiding injury or illnesses avoids costs including legal expense, workers compensation costs, injuries and damages expense, and worker training and retraining. There has been continued improvement in the ratio of OSHA reportable incidents per 100 employees. In 2007 the ratio was 6.07 events per 100 employees. AIC reduced this ratio to 2.29 in 2011 and 1.30 (estimated) for 2012. As a result of fewer such incidents, AIC incurs less in costs related to OSHA incidents as compared to 2007, which is a demonstrable ratepayer benefit.

The Gas Leak Response Objective (for which the Commission approved recovery in Dockets 09-0306, et al. (cons.) and 11-0282) is another example. It benefits ratepayers because timely (less than one hour) responses minimize the risks to customers, premises, and the gas supply system. In 2010, AIC responded to 32,932 gas leaks within one hour 99.8% of the time,

with 22.4 minutes as an average response time. In 2011, AIC responded to 31,440 gas leaks within one hour 99.9% of the time, with 21.9 minutes as an average response time. AIC's customers directly benefit from tracking this level of service by receiving an on-site response to a customer reported gas leak in what we understand to be the quickest average response time of any gas utility in the state of Illinois.

Q. For 2014 Ameren Services KPIs for which AIC is requesting cost recovery, please explain how each KPI provides tangible ratepayer benefits.

A. The attached Ameren Exhibit 11.3 provides a detailed summary of the ratepayer benefits of each of the 2014 Ameren Services KPIs. For example, Ameren Services also has safety KPI goals which benefit ratepayers much as the similar goals for AIC do.

Q. Do the AIC and Ameren Services KPIs include cost containment or cost management KPIs?

A. Yes, certain AIC and Ameren Services KPIs are related to cost management. For example, the B&CS budget compliance in Ameren Exhibit 11.3 is based on achievements of cost metrics. The establishment and focus on cost targets provides benefits to ratepayers by setting a goal for managing overall expenditures for projects and services within a defined period of time. Cost management/cost containment is beneficial to customers because it assures dollar resources are spent on priority initiatives and within the desired timeframe. This helps ensure that customers receive quality service in the most cost-effective manner. This is particularly true where, as here, a future test year is utilized because the benefits of cost containment measures are reflected in the 2014 forecast, based on which rates are set.

Q. Please explain further why cost containment measures benefit ratepayers with a future test year.

A. Ratepayers benefit from the cost containment effects when new rates are put into effect, as those rates reflect the results of cost containment measures in place. Because AIC is using a future test year, and the effects of cost containment/cost measures are reflected in the test year forecast, rates set in this proceeding will reflect cost containment achieved through cost related KPIs. Since rates will come into effect in early 2014 (the test year), the test year costs of the KPIs will be incurred at the time the benefits are accruing to ratepayers in the new rates. For this reason, these KPIs primarily benefit ratepayers.

V. CONCLUSION

Q. What is your conclusion regarding AIC's requested recovery of incentive compensation expense?

A. I conclude that the amount of incentive compensation expense for which AIC is requesting cost recovery represents the costs of KPIs which have tangible ratepayer benefits. As a result, recovery of this incentive compensation expense is reasonable and appropriate.

Q. Does this conclude your direct testimony?

A. Yes, it does.

APPENDIX

STATEMENT OF QUALIFICATIONS
SCOTT D. VERBEST

My name is Scot D. Verbest. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri, 63103. I am employed by Ameren Services Company as Executive Compensation Lead. As Executive Compensation Lead, I am responsible for managing the Ameren and subsidiary company executive compensation programs including market-based pay, short- and long-term incentive plans; executive performance management; preparation of materials for the meetings of the Human Resources Committee of the Board of Directors; assisting in the preparation of the annual proxy and subsidiaries' information statements; among other executive compensation related activities.

I received my Bachelor of Science degree, with a concentration in Business Management, in 1980 from the University of New Orleans. In addition to my academic training, I have over thirty-two years of experience in various human resources and compensation-specific roles of increasing scope and responsibility, and have attended many continuing education programs related to human resources and compensation. I obtained Senior Professional in Human Resources (SPHR) certification in 2006 from the Society of Human Resources Management, and Certified Compensation Professional (CCP) certification in 2010 from World at Work.

I began my professional career at Texaco's upstream Producing East organization in southeast Louisiana and worked in the company's human resources function for ten years. I transferred to Harrison, New York in 1991 to accept various human resources roles in Texaco's worldwide corporate headquarters, and in 1984, transferred to Houston, Texas supporting Texaco's corporate Information Technology human resources function. In 1996, I returned to Texaco's worldwide corporate headquarters in Harrison, New York where I administered both

broad-based and executive compensation programs corporate-wide. With the acquisition of Texaco by Chevron Corporation in 2001, I remained with the new company to assist in the smooth transition of Texaco's executive compensation programs to Chevron.

In 2004, I joined Ameren Services Company as Compensation Specialist. In that, and in roles of increasing scope and responsibility, I managed the Company's broad-based compensation programs and processes, including the design and administration of the annual short-term incentive plans for non-executive management and bargaining unit employees, administration of the annual pay and performance process (merit and short-term incentive awards), market pricing, system administration, etc. I also managed the implementation, administration and vendor relationship of Ameren's compensation planning system and led the President's Performance Leadership Award and other recognition programs, among other compensation related activities. In November 2009, I assumed my current role of Executive Compensation Lead for Ameren Services Company and its subsidiary companies.